ELIAS MOTSOALEDI LOCAL MUNICIPALITY



VIREMENT POLICY

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1. INTRODUCTION

Webster's New Millennium™ Dictionary of English defines "Virement" as a regulated transfer or re-allocation of money from one account to another, especially public funds."

A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year. Changing circumstances and priorities during a financial period may give rise to a need for virement within or between approved budget for a vote, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

2. PURPOSE

2.1 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective ad sound system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of the controls.

2.2 Section 81(1)(d) of the MFMA states that "The chief financial officer of a municipality must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79"

2.3 It is the responsibility of the Director of each Directorate to which funds are allocated, to plan and conduct assigned operations to avoid spending that is more than the budgeted amounts and to ensure that funds are utilized effectively and efficiently.

2.4 Section 78(1)(b) of the MFMA states that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently.

2.5 This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets.

2.6 In addition it specifically aims to empower senior managers with an efficient financial and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality's system of delegations.

3. MFMA REGULATIONS ON BUDGET VERSUS EXPENDITURE

The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approve d virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes. The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions:

3.1 Section 15: Appropriation of funds for expenditure - municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget.

3.2 Unauthorized Expenditure: means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes:-

(a) Overspending of the total amount appropriated in the municipality's approved budget;

(b) Overspending of the total amount appropriated for a vote in the approved budget;

(c) Expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) A grant by the municipality otherwise than in accordance with this Act;"

3.3. Overspending -

(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;"

3.4. Section 71(1)(g)(iii) states that (1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:…(g) when necessary, an explanation of (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget…."

4. VIREMENT REQUIREMENTS

4.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within the department during a financial year.

4.2 Virement between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. management of central insurance funds and insurance claims from separate votes).

4.3 In order for a “vote” (department) to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved “giving” cost element or capital project allocations on the respective budgets.

4.4 Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

4.5 Any budgetary amendment of which the net impact will be a change in the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget as per MFMA section 28.

4.6 In terms of Section 17 of the MFMA a municipality’s budget is divided into an operating and capital budget and consequently no virement is permitted between operating and capital Budgets.

4.7 Virement is not permissible across or between votes.

4.8 Virement between trading and rate-funded functions is not allowed due to the varying impact on respective tariff or rates-borne services’ budget. The budget can only be adjusted during the main adjustment budget in terms of section 28 of MFMA.

5. OPERATING BUDGET VIREMENTS

5.1 Virement is not allowed to utilize special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

5.2 Virement is allowed between same cost elements and only if the virement is within the subjective category.

5.3 All virements to and from this subjective expenditure category are subject to pre-approval by Manager Budget.

5.4 Sound motivation should be provided for all virements, as provided for on the designated virement form.

5.5 Specific virement limitations

- ✓ No virement is permitted between primary and secondary cost elements.
- ✓ No virement to and from grants and subsidies paid is permitted, except if supported by Council decision for such transfer
- ✓ Virement between salaries, wages and allowance (employee related cost) is not permitted and the budget can only be adjusted during the adjustment budget.
- ✓ Like with employee related cost, virement pertaining to Remuneration of Councillors is also not permitted

5.6 General Expenditure and Repairs and Maintenance - virement between these categories is not permitted, however virement between repairs and maintenance category and general expenditure category is permitted.

5.7 No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the cost element:

- ✓ Bulk purchases
- ✓ Bad debts
- ✓ Interest charges and depreciation
- ✓ Indigent relief and Income forgone
- ✓ Appropriation accounts

5.8 Revenue

- ✓ Virement is not permitted in relation to revenue side of the budget. Revenue provisions amendments are to be adopted via an adjustment budget.

5.9 Secondary Operating cost elements

- ✓ Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.
- ✓ Internal utilities and Bulk Internal Utilities virements are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously.

5.10 Virements are only permitted within the same cost element in the following categories:

- ✓ Activity Based Recoveries
- ✓ Internal utilities
- ✓ Bulk Internal utilities

5.11 Virements may not increase the total approved budget of that cost element.

5.12 Virements are not permissible in relation to Support Service Charges

5.13 Ward Allocations Projects:

- ✓ All conditions under ”Operating Budget Virements” section above should be met, as well as the following when virement between ward allocation projects
- ✓ Only virements between existing projects approved by Council, and within the same directorate will be permitted.
- ✓ Virements will only be considered if approved by the council (council resolution) and supported by the project managers and finance managers of the projects involved

5.14 Motivations for virements between projects should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

6. CAPITAL BUDGET VIREMENTS

6.1 Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.
6.2 Virements should not result in adding new projects to the capital budget.
6.3 Virements may not cause an increase to individual projects' total project cost.
6.4 Virements must be between projects of same source of finance (e.g. MIG, own revenue, etc)
6.5 Implementation of the project from which funds are shifted may not be prejudiced (i.e. must not hinder completion of the project).
6.6 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.
6.7 Virements between capital and operating budget is not permitted.
6.8 Only virements between existing projects approved by Council, and within the same directorate will be permitted.
6.9 Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

7. PROCESS AND ACCOUNTABILITY

7.1. Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives vests with the head of the relevant directorate.
7.2 The completed and signed virement form is to be effected by Budget Office.